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DATE: April 6, 2020
TO: President Johnsen
FROM: Myron Dosch *Myron J. Dosch*
SUBJECT: Statewide's Budget

The Statewide unit has reached a substantially fixed cost level – a minimum cost level to support the University. Measurable reductions beyond those already identified may negatively impact the University's basic operation and its important mission.

These conclusions come to light now as a result of significant expenditure reductions at Statewide since FY14, and significant additional reductions that would need to be taken over the next few years to meet forecasted reductions in unrestricted general funds (UGF) and interest income. If the University of Alaska continues the same budget allocation model of pro rata UGF reductions and the same method of simply reducing expenditures per budget unit to meet revenue declines, it will cause reductions below advisable levels. It is also apparent that a structural deficit will occur in approximately FY22, assuming a fixed cost floor is established and revenue continues to decrease. A structural deficit is the level at which base expenditures exceed recurring revenue. Therefore, revenue will need to be reallocated within the University of Alaska System to fund the mission critical functions performed at the Statewide budget unit.

As background, Statewide's UGF reductions per the Compact with the Governor for FY20 – FY22 total \$4.6 million. Another \$3.5 million in annual reduced interest income is forecasted in FY21 and FY22. Taken together, these revenue reductions translate to about 80 – 90 fewer positions, about 45% of all existing Statewide positions. It is impractical to consider that such reductions are viable given that 55% of the positions at Statewide are in Information Technology and Human Resources, and those units have already significantly reduced as discussed below.

Several factors support the position that Statewide is at a substantially fixed cost level, and that further measurable reductions are not practical:

- An independent benchmarking study by National Center for Higher Education Management Systems (NCHEMS) indicates that the UA System office (Statewide) adjusted (less direct costs provided on behalf of universities) expenditures as a

percent of total UA expenditures is 3.5%, and is in line with peer systems (page 18, March 11, 2020 report).

- Statewide has taken significant reductions in terms of UGF (38%) and personnel since FY14. On a net basis (accounting for MAPTS/K12 out, HR and Procurement in), positions are down 49, or 18%, through mid-FY20. Another 17 positions are planned for reductions through FY21, bringing the total to 66, or 24%.
- The functions at Statewide are necessary functions and are not duplicated at the University level. For example, the functions of the President, General Counsel, Human Resources, Information Technology, Finance, Budget and Government Relations, Land Management, are not present at the University level, so the elimination or irresponsible reduction of these functions would be harmful to the basic operation of the University.
- Information Technology consists of about 30% of Statewide positions. Analyses over the past year comparing University of Alaska (UA) Information Technology (IT) to higher education benchmarks (from EDUCAUSE, Gartner, etc.) in terms of spending and staffing have all yielded the same conclusion: that UA IT has borne a disproportionate share of UA's reductions over the past several years, and that UA IT is now somewhere around fifteen to twenty percent below its peers on these resourcing metrics. For example, SW OIT positions are down 28% from FY15-FY19, and with six more on the FY20 list as well, will result in a total 35% reduction since FY15. This has impacted the delivery of resilient and responsive IT services across the UA system, led to several "single points of failure" within the staffing structure, prohibited succession planning and sustainable staffing strategies, and has resulted in very real business continuity risks and challenges. In a memo dated November 8, 2019, the Registrars at all three universities stated that "UA OIT is no longer staffed adequately," that "they are spread too thin," and that "UA must invest in OIT." IT is an increasingly important partner toward enabling more efficient operations across UA, and improving our students' access and outcomes. With a recent emphasis on remote work and alternative instructional delivery, an investment in IT may be warranted.
- Human Resources consists of about 25% of Statewide positions. This area was consolidated across the UA System on July 1, 2020, to achieve economies of scale, and provide the foundation for increased efficiencies in process improvement. Six positions were eliminated as part of the consolidation.
- Procurement and Contract Services was consolidated at Statewide in Fall 2019, to achieve economies of scale, and increase the opportunity for coordinated procurements – saving money for the UA System. Two positions were eliminated with the consolidation.

- Since FY14, other reductions on the non-labor side have been successful, including savings on renegotiated service contracts for telecommunications and software, a new video conferencing platform, and a new managed travel program.
- Statewide executive leadership has evaluated each functional area and identified expenditure reductions as discussed below. At the same time, based on their expert understanding of the roles and responsibilities of Statewide departments, advise against further measurable reductions.

A summary of the structural deficit is summarized below, along with reductions that have been made as part of the FY20 – FY22 budget reduction process:

Summary of GAP, FY20 – FY22 Estimates/Projected (\$ in millions)

UGF reduction	\$4.6
Compensation adjustments	1.2
Interest income decline	<u>3.5</u>
Total	\$9.3
Base Reductions, FY20-FY22	<u>3.2</u>
Structural deficit in FY22 (estimate)	\$6.1

Based on a review of functions at Statewide, here is a summary of base reductions: FY20 and FY21 (\$ in millions)

Information Technology	\$ 0.9
Human Resources	.2
Institutional Research	.4
Finance	.3
Academic Affairs	.6
University Relations	.2
Land Management	.2
UA Foundation	.2
Travel – all departments	<u>.2</u>
	<u>\$ 3.2</u>

Statewide continues to seek efficiencies through process improvement, automation and other means – to support the important mission of the University most cost effectively. However, the ability to absorb significant additional reductions is less given the minimum level of present capacity.

I hope to engage in the near future with you and other university leaders to develop options and solutions to the issues identified in this memorandum. Please let me know of any questions.